

BlackRock Issues Engagement Priorities for the Coming Year

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BlackRock's Investment Stewardship team of over 30 specialists globally is responsible for engagement with portfolio companies, viewing engagement as an important way to provide feedback and note concerns about factors that affect company performance. The investor emphasizes that they intend to engage "in a constructive manner" by asking questions, not telling companies what to do. If they have concerns, they will explain them and provide companies with time to respond. However, BlackRock also declares that "our patience is not infinite" and they will make voting decisions against companies if they do not see any progress after ongoing engagement.

For 2017 to 2018, BlackRock has issued [its priority themes](#) to help company boards and management prepare for engagement with the investor. In addition to being aware of BlackRock's focus, companies should expect to provide a detailed agenda when asking to talk to BlackRock. In deciding whether to talk to companies, the investor will assess a range of factors, including the priorities noted below, the level of concern on the company's specific governance issues, market events and whether the engagement will help protect and enhance value.

Governance. BlackRock wants to better understand a board's position on director turnover, succession planning and diversity. In the coming year, the investor will engage companies on their progress in improving gender balance in the boardroom, and if there is "no progress within a reasonable time frame," BlackRock will hold the nominating and governance committee accountable. The investor will also "encourage" governance structures that it believes enhance accountability, limit entrenchment and align voting rights and economic interests. These include proxy access, annual director elections, board evaluations and one share-one vote.

For companies with significant exposure to climate risk or any material, business-specific risk, BlackRock expects the entire board to demonstrate understanding in how those risks affect the business and management's risk mitigation. The investor will assess the board's efforts as explained in its corporate disclosure and direct engagement with directors as necessary. As with any other governance concerns, BlackRock may vote against the re-election of directors responsible for risk oversight and board process if they do not believe that the board is dealing with risk issues appropriately.

Corporate Strategy. BlackRock has always emphasized the need for companies to explain their long-term strategies. This year the investor noted that companies may be required to "pivot" because the assumptions that formed the prior year strategies may have "shifted dramatically in recent months." BlackRock expects the discussion to reflect how the changing business environment may affect capital allocation, including capital investments, research and development, employee development and capital return to shareholders. An explanation of strategy should also include how a board addresses shorter-term goals, such as quarterly performance.

Compensation. Executive pay policies should use performance measures closely linked to the company's long-term strategies, as opposed to "short-term hikes in share prices." BlackRock expects companies to explain a company's "balance and prioritization" between the metrics that are within management's control ("inputs") relative to other metrics such as earnings per share or total shareholder return ("outputs"). Companies should provide "detailed justification" in public disclosures when pay does not seem to be aligned with performance. In addition, the investor may ask the board to explain the extent to which it considers "internal pay equity and broader macroeconomic context" when setting pay.

Climate Risk Disclosure. As a member of the Financial Stability Board Task Force on Climate-related Financial Disclosure, BlackRock believes that the [preliminary recommendations](#) of the task force provide a relevant roadmap for companies. The investor expects to engage with companies to understand their views on these recommendations and

encourage them to consider using this reporting framework to disclose climate-related risks.

Human Capital Management. BlackRock notes that their portfolio companies often disclose that they are operating in a competitive environment for talented employees. In their engagement, the investor wants to understand how companies are approaching issues of employee development, diversity, equal employment opportunity, health and safety, labor relations and supply chain labor standards, as well as evolving market trends like the shortage of skilled labor, uneven wage growth and technology that is transforming the labor market. During engagement, BlackRock is interested to know if and how boards oversee and work with management on issues of human capital management, which it believes provide insight into a company's culture and board oversight practices.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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